

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Milwaukee Water Works, Milwaukee County,
For Authority to Increase Water Rates

Docket No. 3720-WR-107

SUPPLEMENTAL REBUTTAL TESTIMONY OF JAMES R. WOJCEHOWICZ
July 19, 2010

1 **Q. Please state your name.**

2 A. My name is James R. Wojcehowicz.

3 **Q. Have you previously submitted rebuttal testimony in this proceeding?**

4 A. Yes.

5 **Q. What is the purpose of this supplemental rebuttal testimony?**

6 A. After rebuttal testimony was submitted, Milwaukee Water Works filed a revised rate
7 application, and PSC staff prepared a revised revenue requirement, cost of service study,
8 and rate design. In addition, PSC staff submitted supplemental direct testimony. My
9 supplemental rebuttal testimony responds to these revisions and the PSC's supplemental
10 direct testimony.

11 **Q. Have you reviewed the PSC's supplemental direct testimony and revised exhibits?**

12 A. Yes.

13 **Q. Do the supplemental direct testimony and revised exhibits address the concerns**
14 **raised in your original rebuttal testimony?**

15 A. No. Many of the concerns I raised in my rebuttal testimony were not addressed at all,
16 and they remain of concern. The supplemental testimony and revised exhibits did not
17 address the allocation of costs related to MWW's water meter replacement program,

1 cross-connection control program, or unaccounted-for-water levels. As discussed in my
2 rebuttal testimony, wholesale customers receive no benefit from Milwaukee's
3 unaccounted-for-water costs or its performance of cross-connection or meter replacement
4 within its own retail service area, and each wholesale customer is required to bear similar
5 costs within its retail service area. Wholesale customers should not also bear the costs of
6 these costs for Milwaukee's retail area.

7 This is not a small concern. According to MWW's Superintendent, Milwaukee's
8 water meter replacement program is a multi-year program to replace about 156,000
9 residential and small commercial water meters in the MWW service area. (D1.4, lines 5-
10 6.) This is further described in Exhibit 1.10, Attachment 11, Note, as a \$30 million
11 AMR replacement program starting in 2010. This will be a six year program that will
12 replace the water meter, the ERT, and the RTR. This AMR replacement program will be
13 funded through operation funds. MWW's Superintendent testified that MWW's 2010
14 budget authorizes 56 additional employee positions reflecting the ramping up of the
15 automatic meter replacement program throughout the retail service area. (D.1.5) Where
16 this \$30 million program and 56 additional employee positions are accounted for is not
17 clear from Milwaukee's application. The additional employees are not accounted for in
18 the labor costs related to meters or meter reading. (MWW Application, Revision 2,
19 Attachment 10, Worksheet #1, 2nd Revision.) Milwaukee should identify where these
20 water meter replacement expenses are accounted for, and the PSC should ensure that
21 these expenses are not allocated to the wholesale customers.

22 Similarly, Milwaukee's costs reflect a new cross-connection inspection program
23 for commercial and industrial premises within the City's retail service area. According to

1 MWW's Superintendent, this cross-connection inspection program adds approximately
2 \$1.1 million to MWW's annual operating budget. (D1.3, lines 8-12.) Milwaukee should
3 identify where these cross-connection expenses are accounted for, and the PSC should
4 ensure that these expenses are not allocated to the wholesale customers.

5 Costs related to unaccounted for water from leaks in Milwaukee's distribution
6 system on water mains, lead service laterals, gate valves and fire hydrants are also
7 significant. Unaccounted for water usage may also be associated with MWW's hydrant
8 permit program where fire hydrants are used to supply water to community gardens,
9 landscapers, and construction firms. These hydrants are not metered so there is no way to
10 measure the volume of water used with any hydrant permit. As discussed in Pat Planton's
11 testimony, MWW's unaccounted for water percentage was 14% according to MWW's
12 2009 Annual Report -- a percentage very close to the PSC's action range of 15%. This
13 unaccounted for water has already been treated and pumped, so the chemical costs
14 associated with treating this water as well as the energy costs associated with pumping
15 and treating this water are wasted.

16 Wholesale customers should not bear the costs of Milwaukee's meter replacement
17 program, cross-connection program, or lost water. Wholesale customers receive no
18 benefit from these costs, and each wholesale customer is required to bear similar costs
19 within its retail service area.

20 **Q. Do you have any response to the supplemental direct testimony regarding**
21 **Milwaukee's Proposed Economic Development Water Rate?**

22 **A.** Yes. The PSC's Andrew Behm agreed that wholesale customers of MWW should have
23 access to the economic development rate. (SD12.25, line 5-6.) He testified that the most

1 appropriate method of implementing the rate would be to adopt a separate wholesale
2 economic development rate. (SD12.25, lines 9-11.) I support adopting an economic
3 development rate applicable to wholesale customers.

4 MWW's rationale for an economic development rate is equally applicable to the
5 wholesale communities as it is to MWW. More water sales, and the use of MWW's
6 excess capacity, will benefit all existing water users by reducing water rates. The benefit
7 of using this excess capacity is realized whether water is sold in Milwaukee or in a
8 wholesale community.

9 If the wholesale communities are expected to pay for the excess, unused capacity
10 in MWW's system, they too should have access to an economic development rate. If
11 instead, MWW's excess capacity is viewed solely as a local asset of the City of
12 Milwaukee, then the wholesale customers should not be expected to share in the cost of
13 continuing to retain this excess capacity.

14 **Q. Do you have any response to the supplemental direct testimony regarding the**
15 **payments to the City of Milwaukee's general fund?**

16 A. Yes. The testimony of the PSC's witness, Lois Hubert, is very disturbing to me and her
17 testimony is not consistent with my understanding of the proper use of municipal public
18 utility funds.

19 My understanding is that a municipality owning a public utility is limited in its
20 ability to take money out of its public utility. This is because a municipality owning a
21 public utility has an obligation to continue to provide adequate utility service. It cannot
22 pull money out of the utility if doing so would jeopardize the provision of utility service.

1 Wisconsin statutes also limit a municipality's ability to withdraw money the
2 public utility. Wisconsin Statute section 66.0811 requires the income of a municipal
3 public utility to be used to make payments to meet operation, maintenance, depreciation,
4 interest, and debt service fund requirements, local and school tax equivalents, additions
5 and improvements, and other necessary disbursements or indebtedness. Only income in
6 excess of these requirements may be paid into the general fund.

7 My understanding is that municipal public utility revenues cannot be paid into the
8 general fund until the other utility needs - including the need for additions and
9 improvements - of the municipal public utility are met. My understanding is that it would
10 violate the state statute to siphon money from the municipal public utility before these
11 needs are met. I also believe it would be unreasonable, and a violation of the
12 municipality's obligation to continue to provide adequate service.

13 Ms. Hubert's testimony does not address this statutory limitation on a
14 municipality's ability to siphon funds from the municipal public utility.

15 **Q. Do you believe the City of Milwaukee would be justified in taking money from**
16 **MWW's water utility revenues?**

17 A. The City already receives a substantial annual payment from MWW. According to
18 MWW's 2009 Annual Report, MWW paid a property tax equivalent to the City of \$9.4
19 million. As stated in my original rebuttal testimony, this property tax equivalent provides
20 the City with much more than property tax reimbursement. The portion of the property
21 tax equivalent related to City property taxes is only \$4.1 million -- the rest of the property
22 tax equivalent is based upon the tax rates of the school district, and vocational school
23 district, although the funds collected by the City based upon these tax rates are not

1 provided to the taxing entities. Therefore, the City is already collecting a payment of
2 more than \$5 million more than the property taxes that would otherwise be due to the
3 City.

4 **Q. Should the City of Milwaukee be allowed to take money from MWW's municipal**
5 **public utility revenues in excess of this PILOT payment?**

6 No. As discussed above, the City's ability to take additional funds from municipal public
7 utility revenues is limited by Wisconsin Statute section 66.0811. This statute prohibits a
8 municipality from taking money from municipal public utility revenues until the other
9 utility needs set forth in the statute - including the need for additions and improvements -
10 are met.

11 In MWW's case, I believe the need for additions and improvements to MWW's
12 system is undeniable. MWW is depreciating its water mains based upon a 77 year life,
13 yet it is replacing its water mains based upon a 177 renewal period. (See R2.28) MWW's
14 underinvestment in the replacement of its transmission and distribution has hurt
15 ratepayers because operation and maintenance costs related to the transmission and
16 distribution system have increased as MWW spends money annually to maintain these
17 old facilities, instead of investing the money to replace the old facilities and capitalizing
18 those funds. MWW's underinvestment in its water system has also resulted in high rates
19 of unaccounted for water which also hurts ratepayers.

20 As a wholesale customer of MWW, the City of Wauwatosa needs MWW to
21 operate and maintain a well-run water utility. We support a fair rate structure that
22 provides sufficient funds to operate and maintain the MWW system, and to repair and
23 replace utility infrastructure. However, the City should not be allowed to siphon off a \$3

1 million dollar annual dividend from the MWW which would be contributed to the City's
2 general fund in 2010 and in future years, especially in light of the City's failure to retain
3 sufficient funds for upgrading the system. I believe this proposed action by the City
4 would jeopardize the City's ability to provide adequate utility service, and be in violation
5 of Wisconsin statutes.

6 **Q. Does this conclude your supplemental rebuttal testimony?**

7 A. Yes, it does.

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